

## Message Text

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 7234

C O N F I D E N T I A L SECTION 1 OF 5 KUALA LUMPUR 3030

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E.O. 11652: ADS, DECLASS 6/6/77

TAGS: EPAP, ETRD, EALR, ECIN, MY

SUBJECT: SECOND UNCTAD PREPARATORY MEETING ON RUBBER, JUNE 6-10,  
1977

REF: KUALA LUMPUR 3029

1. THIS MESSAGE TRANSMITS THE TEXT OF A PAPER ENTITLED "PROPOSALS  
FOR INTERNATIONAL ARRANGEMENT ON NATURAL RUBBER PRICE STABILIZATION"  
WHICH WILL BE TABLED BY THE ASSOCIATION OF NATURAL RUBBER PRODUCING  
COUNTRIES AT THE SECOND UNCTAD PREPARATORY MEETING ON  
RUBBER IN GENEVA JUNE 6-10, 1977. THIS TEXT SHOULD BE READ IN  
CONJUNCTION WITH K.L. 3029 ON THE SAME SUBJECT.

2. BEIN TEXT. I. INTRODUCTION. THE HISTORY OF NATURAL RUBBER  
DATES BACK FOR MORE THAN ONE HUNDRED YEARS. DURING THIS PERIOD  
MANY TECHNOLOGICAL AND SCIENTIFIC INNOVATIONS, DISCOVERIES  
AND DEVELOPMENTS HAVE IMPINGED ON THE ELASTOMER SCENE, THE  
MOST NOTABLE BEING THE EXTENSIVE PRODUCTION OF SYNTHETIC  
RUBBERS TO MEET THE RISING DEMAND. CONSEQUENTLY, FROM BEING  
THE SOLE COMMERCIALY VIABLE ELASTOMER, NATURAL RUBBER HAS  
PERFORCE BECOME ONLY ONE AMONG A RANGE OF ELASTOMERS  
ALTHOUGH IT IS STILL RECOGNIZED AS THE MOST VERSATILE  
ELASTOMER OF CONSIDERABLE STRATEGIC, TECHNICAL AND ECONOMIC  
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IMPORTANCE. AT PRESENT, NATURAL RUBBER ACCOUNTS FOR NEARLY  
34 PERCENT OF TOTAL WORLD ELASTOMER CONSUMPTION.

2. NATURAL RUBBER IS TRADED IN A FREE MARKET WHICH IS  
VULNERABLE TO THE ECONOMIC PROSPERITY OF CONSUMING COUNTRIES,  
AND ALSO TO SPECULATIVE FACTORS. THUS NATURAL RUBBER IPSO  
FACTO HAS NOT BEEN ABLE TO ADJUST EFFECTIVELY TO SUPPLY/

DEMAND IMBALANCES IN A FREE MARKET AND, AS A CONSEQUENCE, ITS PRICE HAS EXPERIENCED MARKED CYCLICAL AND TRANSIENT FLUCTUATIONS. WHILE THE TECHNO-ECONOMIC CONSUMPTION POTENTIAL OF NATURAL RUBBER HAS BEEN ESTIMATED TO BE OF THE ORDER OF 42-43 PERCENT, THE REALIZATION OF THIS POTENTIAL HAS BEEN INHIBITED BY THE ABSENCE BOTH OF A MEASURE OF PRICE STABILITY AND OF ASSURED ADEQUACY OF SUPPLIES.

3. THE SITUATION IN THE ELASTOMER WORLD HAS BEEN FURTHER COMPLICATED BY THE PETROLEUM SITUATION. FIRST, THE COST OF PETROLEUM QUADRUPLED, FOLLOWED BY THE INCREASING REALIZATION THAT FOSSIL FUELS ARE A DWINDLING RESOURCE AND WILL BE EXHAUSTED IN A FINITE AND FORESEEABLE PERIOD. FURTHER, ENVIRONMENTAL CONSIDERATIONS, ENERGY CONSERVATION POLICIES AND THE ANTICIPATION OF POSSIBLE SHORTAGE OF POLYMERIC RAW MATERIALS ARE TILTING THE BALANCE OF FAVOR OF BIOLOGICALLY-BASED POLYMERS.

4. THE WORLD REQUIRES AN ASSURED POLYISOPRENE SUPPLY IN INCREASING VOLUME TO KEEP THE WHEELS OF INDUSTRY AND TRANSPORT MOVING. PRODUCING COUNTRIES, IN CONSONANCE WITH THEIR ASPIRATIONS FOR SOCIO-ECONOMIC DEVELOPMENT IN THEIR RESPECTIVE AREAS, ARE DETERMINED TO MEET THE SITUATION WITH A DYNAMIC PRODUCTION POLICY. IMPLEMENTATION OF SUCH A POLICY NECESSARILY ENTAILS THE DILEMMA OF HAVING TO FACE THE TRANSIENT IMBALANCES AND THE CONCOMITANT PRICE FLUCTUATIONS.

5. MUCH HAS BEEN SAID IN VARIOUS FORA ON THE NEED FOR SCIENTIFIC AND TECHNOLOGICAL INPUTS FOR INCREASING EFFICIENCY  
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AND FOR PROGRESSIVE RESEARCH/. UNDOUBTEDLY AMONG ALL THE BIOLOGICALLY-BASED POLYMERS IN THE WORLD, NATURAL RUBBER REPRESENTS A UNIQUE COMMODITY BACKED BY STRONG RESEARCH AND DEVELOPMENT EFFORTS AND AS A CONSEQUENCE HAS BEEN ABLE TO SURVIVE THE AGGRESSIVE COMPETITION OF SYNTHETIC RUBBERS AND OTHER SUBSTITUTES FOR NEARLY THREE DECADES.

6. MODERN SCIENTIFIC INNOVATIONS AVAILABLE TO THE NATURAL RUBBER INDUSTRY INCLUDE:

(I) REVOLUTIONARY HIGH-YIELDING MATERIALS WITH YIELD CAPACITIES IN EXCESS OF 3,000 KILOGRAM PER HECTARE PER YEAR.

(II) ADVANCED PLANTING MATERIALS, WITH IMMATURITY PERIODS REDUCED FROM 5 TO 3 AND ONE-FOURTH YEARS.

(III) STIMULATION ENABLING YIELD INCREASES FOR OLDER PLANTING MATERIALS ON THE GROUND OF AS MUCH AS 60-100 PERCENT.

(IV) MODIFIED NATURAL RUBBERS DISPLAYING THERMOPLASTIC  
AND OTHER NOVEL CHARACTERISTICS.

(V) EXPANDING END USES OF NATURAL RUBBER IN ENGINEERING  
APPLICATIONS E.G. BUILDING MOUNTS IN EARTHQUAKE-PRONE AREAS,  
ETC.

YET TOTAL RESEARCH AND DEVELOPMENT CAN BE CONSIDERED AS HAVING  
ONLY SCRATCHED THE SURFACE OF NATURAL RUBBER'S POTENTIAL.  
MORE EXCITING INNOVATIONS CAN BE EXPECTED TO COME FROM THE  
EXPERIMENTAL FIELDS, THE FACTORIES, THE LABORATORIES AND THE  
TEST-TUBES. THE NATURAL RUBBER PRODUCING COUNTRIES  
ARE ALSO CONSCIOUS OF THE FACT THAT THE SYNTHETIC RUBBER  
INDUSTRY HAS MOVED FROM THE ERSTWHILE STAGE OF DIRECT  
COMPETITION INTO THE PHASE OF COMPLEMENTATION AND COLLABORATION  
WITH NATURAL RUBBER.

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-----161106Z 016142 /16

P 160430Z MAY 77  
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7. IT IS WITHIN THIS FRAMEWORK THAT THE ANRPC MEMBER COUNTRIES  
HAVE STUDIED BOTH SHORT-TERM AND LONG-TERM PROSPECTS, PROBLEMS,  
STRENGTHS AND WEAKNESSES OF THE NATURAL RUBBER INDUSTRY.  
THE IN-DEPTH STUDY SHOWS EXPLICITLY THAT IF THE NATURAL  
RUBBER INDUSTRY IS TO REMAIN VIABLE AND IS TO BE ABLE TO  
EXPLOIT SUCCESSFULLY THE EXISTING POTENTIALS AHEAD, IT  
MUST MEET THE FOLLOWING REQUIREMENTS:

(I) A DYNAMIC PRODUCTION POLICY IN PRODUCING AREAS AIMED  
AT DOUBLING THE PRESENT PRODUCTION LEVEL WITHIN THE NEXT TEN YEARS.

(II) THE INTRODUCTION OF AN INTERNATIONAL ARRANGEMENT TO  
ENSURE A MEASURE OF PRICE STABILITY FOR NATURAL RUBBER,  
GOVERNED BY THE FOLLOWING CONSTRAINTS:

A) REMUNERATIVE RETURNS TO THE PRODUCERS;  
B) EQUITABLE PRICES TO THE CONSUMERS, TAKING INTO CONSIDERATION  
THE PRICES OF COMPETING SUBSTITUTES; AND  
C) CONTINUING RESEARCH, DEVELOPMENT AND MODERNIZATION ON  
THE PART OF THE NATURAL RUBBER INDUSTRY.

8. AS A CONSEQUENCE OF THESE CONCLUSIONS AND RECOMMENDATIONS,  
DISCUSSIONS AMONG THE ANRPC PRODUCING COUNTRIES LED TO THE  
AGREEMENT ON A PRICE STABILIZATION MECHANISM. THIS INVOLVES  
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A BUFFER STOCK SUPPORTED, AS AN WHEN NECESSARY, BY A  
SUPPLY RATIONALIZATION SCHEME. THE REQUIREMENTS FOR A  
MECHANISM OF BUFFER STOCK OPERATION AND ITS EFFICACY IN  
BRINGING ABOUT PRICE STABILITY IS PERHAPS BEST EXEMPLIFIED  
BY THE MEASURES ADOPTED BY A MAJOR NATURAL RUBBER PRODUCING  
COUNTRY IN THE 1974-75 PERIOD TO ARREST THE UNREALISTIC  
PRICE DECLINE OF NATURAL RUBBER. WHEN THE PRICE OF NATURAL  
RUBBER WENT BELOW MALAYSIAN 100 CENTS A KILOGRAM, THE GOVERNMENT  
OF THIS PRODUCING COUNTRY UNILATERALLY UNDERTOOK MEASURES TO  
WITHHOLD FROM THE THE MARKET, OVER APERIOD OF 12 MONTHS, APPROXIMATELY

100,000 TONS OF RUBBER. THIS WAS ACHIEVED BY THE INTRODUCTION  
OF TAPPING HOLIDAYS, A BAN ON STIMULANTS, INCREASED NATIONAL  
TRADE STOCKS AND DIRECT PURCHASING OF SMALLHOLDER RUBBER  
FOR NATIONAL STOCKS. THE MEASURES IMPLEMENTED NOT ONLY  
ARRESTED THE PRICE EROSION OF NATURAL RUBBER, BUT STABILIZED  
THE PRICES DURING THE JANUARY-JUNE PERIOD OF 1975 AT AROUND  
MALAYSIAN 120-135 CENTS A KILOGRAM. SINCE JUNE, THE DEMAND-INDUCED  
UPTURN REMOVED ANY NECESSITY FOR CONTINUING THESE MEASURES.  
THE PROGRAM WAS THEREFORE DISCONTINUED IN SEPTEMBER 1975,  
CLEARLY EMPHASIZING THE GENUINE AND SINCERE CONCEPTUAL APPROACH  
OF THE GOVERNMENT OF THAT PRODUCING COUNTRY. THE ACTION TAKEN  
PROVED THAT WHAT THIS PRODUCING COUNTRY WISHED FOR WAS NOT  
A PRICE HIKE BUT A MEASURE OF PRICE STABILITY AT REASONABLE  
LEVELS. IT IS IN THE CONTEXT OF PROVEN EXPERIMENTATION  
WITH DATA TO JUSTIFY NOT ONLY THE RATIONALE BUT ALSO  
THE EFFICACY OF A BUFFER STOCK OPERATION THAT THE ANRPC  
MEMBER COUNTRIES MOVED POSITIVELY TO ARRIVE AT AN AGREEMENT,  
I.E. THE "INTERNATIONAL NATURALRUBBER AGREEMENT ON PRICE  
STABILIZATION" UNDER THE AEGIS OF THE ANRPC.

9. FROM THE VERY BEGINNING, THE ANRPC MEMBER COUNTRIES  
HAVE BEEN CONSCIOUS OF THE ROLE THAT CONSUMERS CAN PLAY  
AND HAVE BEEN APPRECIATIVE OF THE BENEFITS THAT COULD ACCURE  
BY CONSUMER PARTICIPATION. THE ANRPC MEMBER COUNTRIES ARE  
FULLY AWARE OF THE NEED TO PROVIDE A BASIS FOR CONSUMER  
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INTERACTION WITH PRODUCERS. IT IS FOR THIS REASON THAT PARALLEL TO THE ANRPC INITIATIVE, PRODUCING COUNTRIES ARE ALSO SEEKING A JOINT CONSUMER/PRODUCER ARRANGEMENT FOR NATURAL RUBBER WITHIN THE CONTEXT OF THE UNCTAD INTEGRATED PROGRAM FOR COMMODITIES. IF SUCH AN INTERNATIONAL AGREEMENT INVOLVING CONSUMERS AND PRODUCERS IS CONCLUDED, THE ANRPC INTERNATIONAL NATURAL RUBBER AGREEMENT ON PRICE STABILIZATION WILL CEASE TO FUNCTION. IT IS IN THIS CONTEXT THAT THE UNCTAD FIRST PREPARATORY MEETING ON RUBBER WAS HELD IN GENEVA FROM 17-21 JANUARY 1977.

## II. THE FIRST UNCTAD PREPARATORY MEETING ON RUBBER

10. THE MEETING NOTED THAT THE ECONOMIC AND TECHNOLOGICAL RESEARCH STUDIES ON NATURAL RUBBER ALREADY UNDERTAKEN OVER THE YEARS BY VARIOUS INTERNATIONAL AND INTER-GOVERNMENTAL ORGANIZATIONS HAVE PROVIDED AN ADEQUATE BASIS FOR FORMULATING SUITABLE INTERNATIONAL MEASURES FOR NATURAL RUBBER PRICE STABILIZATION. THE MEETING ALSO AGREED THAT THE INITIATIVE TAKEN BY THE DEVELOPING NATURAL RUBBER PRODUCING COUNTRIES ON 30 NOVEMBER, 1976, IN THE FORM OF THE INTERNATIONAL NATURAL RUBBER AGREEMENT ON PRICE STABILIZATION UNDER THE AUSPICES OF THE ANRPC, CONSTITUTED A SIGNIFICANT AND CONSTRUCTIVE CONTRIBUTION TO AN UNDERSTANDING OF THE BASIC PROBLEMS OF THE INTERNATIONAL RUBBER MARKET, AND AN IMPORTANT BASIS FOR SERIOUS CONSIDERATION OF BROADER INTERNATIONAL ARRANGEMENTS ON NATURAL RUBBER.

11. AS A FIRST STEP TOWARDS THE REALIZATION OF A BROADER INTERNATIONAL ARRANGEMENT ON NATURAL RUBBER, IT IS NECESSARY TO REACH UNDERSTANDING ON SOME OF THE BASIC ISSUES RELATING TO SUCH AN ARRANGEMENT. THIS WILL HELP TO IDENTIFY THE POSSIBLE ELEMENTS TO BE INCLUDED IN AN INTERNATIONAL AGREEMENT ON NATURAL RUBBER. THE FOLLOWING ARE SOME OF THE BASIC ISSUES FOR CONSIDERATION OF THE SECOND PREPARATION (SIC) MEETING ON RUBBER.

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-----161109Z 016446 /17

P 160430Z MAY 77  
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### III. INTERNATIONAL MEASURES FOR NATURAL RUBBER PRICE STABILIZATION

12. THE ANRPC HAVE GIVEN CONSIDERABLE THOUGHT AND CARRIED OUT IN-DEPTH STUDIES ON MEASURES TO STABILIZE NATURAL RUBBER PRICES. IN THE PROCESS THEY WERE CONVINCED THAT AN INTERNATIONAL BUFFER STOCK FOR RUBBER COMPLEMENTED AND SUPPORTED, AS AN WHEN NECESSARY, BY A SUPPLY RATIONALIZATION SCHEME WOULD BE THE MOST EFFECTIVE ANSWER TO REDUCE VIOLENT NATURAL RUBBER PRICE FLUCTUATIONS WHICH ACT TO THE DETRIMENT OF BOTH THE PRODUCERS AND CONSUMERS OF THE COMMODITY. NATURAL RUBBER IS VERY MUCH INFLUENCED BY A NUMBER OF SPECULATIVE FACTORS, MOST OF WHICH CAN BE ELIMINATED BY SUCH A SCHEME. THE OTHER MEASURES AND OBJECTIVES EMBODIED IN THE UNCTAD RESOLUTION 93 (IV) ON INTEGRATED PROGRAM FOR COMMODITIES SHOULD BE SUPPORTIVE OF, AND NOT SUBSTITUTES FOR, AND INTERNATIONAL BUFFER STOCK SCHEME.

### IV. THE GOVERNING COUNCIL

13. OPERATION OF A PRICE STABILIZATION SCHEME SHOULD BE UNDER THE CONTROL OF A GOVERNING COUNCIL WHICH WILL BE THE SUPREME BODY RESPONSIBLE FOR ALL MATERS RELATING TO THE ORGANIZATION AND EXECUTIVE FUNCTIONS OF THE SCHEME.

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14. THE COUNCIL SHOULD COMPRISE A CHAIRMAN AND VICE-CHAIRMAN (WHO WILL ACT IN THE ABSENCE OF THE CHAIRMAN) AND A MEMBER FROM EACH OF THE CONTRACTING COUNTRIES. HOWEVER, THE DETAILED ORGANIZATIONAL STRUCTURE IS A SUBJECT WHICH WOULD NEED TO BE CONSIDERED FURTHER.

### V. PARTICIPATION

15. THE BUFFER STOCK OPERATES TO THE BENEFIT BOTH OF PRODUCERS AND CONSUMERS. EFFORTS TO STABILIZE RUBBER PRICES NEED THE COOPERATION AND ACTIVE PARTICIPATION OF BOTH PRODUCERS AND CONSUMERS. THE MEMBERSHIP OF THE INTERNATIONAL NATURAL RUBBER COUNCIL SHOULD BE OPEN TO NET PRODUCING COUNTRIES, AND NET CONSUMING COUNTRIES. A NET PRODUCING COUNTRY IS DEFINED AS A COUNTRY WHOSE PRODUCTION EXCEEDS ITS CONSUMPTION OF NATURAL RUBBER IN ANY ONE CALENDAR YEAR. A NET CONSUMING COUNTRY IS DEFINED AS A COUNTRY WHOSE CONSUMPTION OF NATURAL RUBBER EXCEEDS ITS PRODUCTION IN ANY ONE CALENDAR YEAR. PARTICIPATION OF SMALL PRODUCING AND CONSUMING COUNTRIES SHOULD BE ADEQUATELY ACCOMMODATED. IT IS ALSO NECESSARY TO PROVIDE FOR THE PARTICIPATION OF COUNTRIES WHICH IMPORT, RE-PROCESS AND/OR RE-PACK AND RE-EXPORT NATURAL RUBBER.

#### VI. QUANTUM OF STOCK

16. THE OVERRIDING PRINCIPLE IN DETERMINING THE QUANTITY OF STOCK IS THAT IT SHOULD BE OF SUFFICIENT SIZE TO FULFIL EFFECTIVELY THE PRICE STABILITY OBJECTIVES ENVISAGED.

17. DURING THE FIFTEEN YEAR PERIOD OF 1959-73, DEFICITS AND SURPLUSES ARISING FROM IMBALANCES OF THE SUPPLY DEMAND POSITION FOR NATURAL RUBBER HAVE OSCILLATED ON AVERAGE FROM MINUS 3 PERCENT TO 5 PERCENT OF CONSUMPTION. THIS WOULD MEAN THAT AN EFFECTIVE BUFFER STOCK BASED ON SUCH DEFICITS AND SURPLUSES SHOULD BE OF THE ORDER OF 10 PERCENT OF CONFIDENTIAL

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NATURAL RUBBER PRODUCTION. IT SHOULD ALSO BE NOTED THAT, AT ANY GIVEN TIME, INTERNATIONAL COMMERCIAL STOCKS REPRESENT NEARLY ONE MILLION TONS. AT THE SAME TIME, THE PRODUCTION OF NATURAL RUBBER IS EXPECTED TO INCREASE FROM 3.5 MILLION TONS IN 1975 TO OVER 4.5 MILLION TONS BY 1980. IF THE MAIN OBJECTIVES OF THE SCHEME IS TO REMOVE IMBALANCES BETWEEN THE SUPPLY OF AND DEMAND FOR NATURAL RUBBER, THE QUANTUM OF THE BUFFER STOCK SHOULD REFLECT PRESENT AND ANTICIPATED PRODUCTION INCREASES AND THE LEVEL OF INTERNATIONAL COMMERCIAL STOCKS AND PAST DEFICITS OR SURPLUSES. IN VIEW OF THESE CONSIDERATIONS, THE ANRPC COUNTRIES CONCLUDE THAT THE SIZE OF THE BUFFER STOCK SHOULD BE AT LEAST 400,000 TONS.

#### VII. FLOOR AND CEILING PRICES

18. A REALISTIC FLOOR PRICE SHOULD NOT ONLY REFLECT THE REPRESENTATIVE COST OF PRODUCTION BUT ALSO SHOULD ENCOURAGE THE SMALL PRODUCERS TO CONTINUE PRODUCTION SO AS TO ENSURE ADEQUATE SUPPLY. A REALISTIC CEILING PRICE SHOULD NOT ONLY REFLECT THE COMPETITIVENESS OF NATURAL RUBBER VERSUS

SYNTHETIC RUBBER, BUT ALSO MOTIVATE CONSUMERS TO INCREASE TO THE TO OPTIMUM THEIR USAGE OF NATURAL RUBBER. THE FLOOR AND CEILING PRICES ARE SPECIFIED FOR A GIVEN PERIOD AND ARE CONSISTENT WITH THE DESIRED OBJECTIVES OF THE SCHEME. IN OTHER WORDS, THESE LIMITS SHOULD BE REALISTIC IN LIGHT OF ANY EXISTING SITUATION; TOO LOW A FLOOR PRICE IS MEANINGLESS WHILE TOO HIGH A CEILING PRICE IS COUNTER-PRODUCTIVE TO PRODUCERS AND CONSUMERS ALIKE. WITHIN THE FLOOR AND CEILING PRICES IS A "STABILIZATION BAND", WITHIN WHICH THE BUFFER STOCK SCHEME AIMS TO OPERATE AND WHICH ALLOWS FOR FREE MARKET FORCES TO OPERATE WITHOUT ANY INTERVENTION FROM THE BUFFER STOCK. SINCE THE PRICE OF RSS 1 IS UNIVERSALLY ACCEPTED AS THE STANDARD YARDSTICK BY WHICH OTHER GRADES OF RUBBER, BOTH SUPERIOR AND INFERIOR TO RSS 1 IN QUALITY, ARE EVALUATED, THE PRICE FOR RSS 1 PREVAILING IN BOTH SINGAPORE AND KUALA LUMPUR INTERNATIONAL RUBBER MARKETS IS EMPLOYED

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FOR DETERMINING THE FLOOR AND CEILING LEVELS AND THE STABILIZATION BAND. OF COURSE, IN ACTUAL TRANSACTIONS IN RESPECT OF OTHER GRADES OF RUBBER, PRICE DIFFERENTIALS AS DICTATED BY PREVAILING MARKET FACTORS WILL BE TAKEN INTO ACCOUNTS.

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P 160430Z MAY 77  
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19. THE LEVEL OF THE FLOOR AND CEILING PRICES SHOULD BE  
SUBJECTED TO PERIODIC REVIEWS, TO ENSURE THAT THEY REMAIN



CONSONANT WITH THE OBJECTIVES OF THE SCHEME IN THE CONTEXT OF CHANGING COSTS, MARKET FACTORS AND COMPETITIVE SITUATIONS. THE SITUATION PREVAILING AT THE TIME THE ANRPC AGREEMENT WAS FIRST CONCEIVED REQUIRED A FLOOR PRICE OF MALAYSIAN 120 CENTS PER KILOGRAM AND A CEILING OF 180 CENTS PER KILOGRAM. SINCE THEN THE SITUATION HAS CHANGED IN RESPECT OF PRODUCTION COSTS AND INFLATIONARY TREND IMPRINGING ON INTERNATIONAL TRADE. THE PRESENT CONDITIONS COULD WARRANT FLOOR AND CEILING PRICES OF MALAYSIAN 150 CENTS PER KILOGRAM AND 210 CENTS PER KILOGRAM. IT IS THEREFORE ESSENTIAL THAT IN THE INTERNATIONAL AGREEMENT A MECHANISM SHOULD BE CREATED TO MONITOR RELEVANT FACTORS AND PERIODICALLY REVIEW FLOOR AND CEILING PRICES.

#### VIII. COMPOSITION OF STOCKS

20. IN DECIDING ON THE COMPOSITION OF STOCKS TO BE HELD BY THE SCHEME, CONSIDERATION MUST BE GIVEN TO:

- (A) THE COMPOSITION OF PRODUCTION WITHIN INDIVIDUAL PRODUCING COUNTRIES;
  - (B) THE NEED TO LIMIT THE NUMBER OF GRADES FOR MORE
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EFFECTIVE MANAGEMENT AND OPERATION;

- (C) THE EFFECTS OF MODERNIZATION TO UPGRADE SMALLHOLDER RUBBER PRODUCTION.

ACCORDINGLY, IT IS PROPOSED TO INCLUDE TECHNICALLY SPECIFIED RUBBER, RSS 1, RSS 3, AND RSS 4 AND AN APPROPRIATE REMILLED GRADE IN THE BUFFER STOCK. THE STOCK COMPOSITION WILL BE REVIEWED FROM TIME TO TIME IN RESPONSE TO CHANGING PRODUCTION AND CONSUMPTION PATTERNS.

#### IX. BUFFER STOCK OPERATIONS

21. THE BUFFER STOCK SCHEME IS CENTRALLY CONTROLLED AND OPERATED, TO ALLOW MAXIMUM INFLUENCES TO BE EXERTED ON THE MARKET FORCES TO THE LEVEL AIMED AT. THE OPERATION WILL BE CONFINED TO FOUR DISTINCT AREAS:

- (A) WHEN THE RSS 1 PRICE IS BELOW THE LOWER LIMIT OF THE STABILIZATION BAND, BUYING SUBJECT TO THE AVAILABILITY OF FUNDS, IS CARRIED OUT TO PREVENT THE PRICE FROM FALLING.

- (B) WHEN THE RSS 1 PRICE IS WITHIN THE STABILIZATION BAND, BUFFER STOCK OPERATION IS NOT NORMALLY DEEMED NECESSARY. PRICE FLUCTUATION CAUSED BY FREE MARKET FORCES WITHIN THIS BAND IS ACCEPTABLE.

(C) WHEN THE RSS 1 PRICE IS ABOVE THE UPPER LIMIT OF THE STABILIZATION BAND BUT BELOW THE CEILING PRICE, SELLING OF RUBBER FROM THE STOCK MAY BE EFFECTED TO PREVENT THE PRICE FROM RISING TOO RAPIDLY. THIS OPERATION WILL BE SUBJECT, OF COURSE, TO THE AVAILABILITY OF STOCK.

(D) WHEN THE RSS 1 PRICE IS EQUAL TO OR ABOVE THE CEILING PRICE, THE SELLING OF BUFFER STOCK IS IN FULL FORCE, SUBJECT TO THE AVAILABILITY OF STOCK, UNTIL THE RSS 1 PRICE FALLS BELOW THE CEILING, OR UNTIL THE STOCK

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IS EXHAUSTED.

22. IN ORDER TO ACHIEVE MAXIMUM EFFECTIVENESS IN INFLUENCING THE PRICE, DIRECT PURCHASING WHEN THE PRICE DECLINES AND DIRECT SELLING WHEN THE PRICE RISES SHOULD BE CENTRALIZED AND EFFECTED IN THE ESTABLISHED MAJOR MARKETS. NOTWITHSTANDING THIS, THE FACILITIES AVAILABLE IN THE COMMODITY MARKET ARE SUCH THAT THE PHYSICAL TRANSFER OF RUBBER CAN BE ARRANGED AT ANY TIME AND PLACE DICTATED BY THE SELLER AND BUYER. SINCE THE BUFFER STOCK OPERATION IS TO INFLUENCE THE PRICE OF RUBBER, AND THUS ANY CHANGE IN THIS PRICE AS A RESULT WILL AUTOMATICALLY AFFECT THE PRICE OFFERED TO ALL PRODUCERS THE WORLD OVER, THE LOGICAL PLACE FOR BUFFER STOCK INTERVENTION IS IN THE ESTABLISHED MAJOR RUBBER MARKETS.

23. SUBJECT TO OVERALL EFFECTIVENESS, LIMITED BUYING AND SELLING ACTIVITIES MAY BE UNDERTAKEN IN THOSE PRODUCING COUNTRIES WITHOUT ESTABLISHED MARKETS, SO AS TO REFLECT THE SOCIO-POLITICAL NEEDS OF THE COUNTRIES CONCERNED. IN ANY CASE, ACTIONS ARE IN TRAIN TO ESTABLISH MARKETS IN ALL ANRPC MEMBER COUNTRIES WITH A VIEW TO EVOLVING A COORDINATED MARKETING SYSTEM.

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P 160430Z MAY 77

FM AMEMBASSY KUALA LUMPUR

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#### X. SUPPLY RATIONALIZATION SCHEME

24. THE NATURAL RUBBER PRODUCING COUNTRIES BELIEVE THAT SUPPLY RATIONALIZATION MEASURES SHOULD BE SUPPORTIVE OF, AND NOT SUBSTITUTES FOR, A WELL FINANCED BUFFER STOCKING ARRANGEMENT. AS FAR AS POSSIBLE, THE USE OF THESE MEASURES SHOULD BE MINIMIZED SO AS TO PERMIT CHANGES IN MARKET SHARES BETWEEN EXISTING AND NEW NATURAL RUBBER PRODUCERS IN KEEPING WITH THEIR RELATIVE COSTS OF PRODUCTION.

25. SHOULD THE BUFFER STOCK EXHAUST ITS FUNDS IN SUPPORTING THE FLOOR PRICE, EXPORTS OF NATURAL RUBBER FROM THE PRODUCING COUNTRIES SHOULD BE AUTOMATICALLY REDUCED IN PROPORTION TO THEIR SHARES IN TOTAL EXPORTS IN PREVIOUS YEARS.

#### XI. LOCATION OF STOCKS

26. STOCKS OF NATURAL RUBBER WILL BE LOCATED TO ENSURE THEIR EXPEDITIOUS AND EFFECTIVE UTILIZATION TO INFLUENCE THE PRICE OF RUBBER IN THE MAJOR WORLD MARKETS. THE MAIN CONSIDERATIONS IN THE CHOISE OF THE PHYSICAL LOCATION OF NATURAL RUBBER STOCKS WOULD BE THE STORAGE COST AND AN ASSURANCE OF CONTINUITY OF SUPPLIES FROM PRODUCING TO CONSUMING COUNTRIES.

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27. IN VIEW OF THE HIGHER COSTS OF HANDLING AND WAREHOUSING IN CONSUMING COUNTRIES, IT IS SUGGESTED THAT STOCKS SHOULD INITIALLY BE HELD WITHIN PRODUCING COUNTRIES. BUT FOR THE PURPOSE OF SALES PROMOTION IN CONSUMING COUNTRIES AND TO IMPROVE THE COMPETITIVE POSITION OF NATURAL RUBBER VIS-A-VIS SYNTHETIC RUBBER. IT IS ALSO SUGGESTED THAT THE HOLDING OF SMALL STOCKS IN SELECTED CONSUMING COUNTRIES MAY BE DESIRABLE.

#### XII. NOTES

28. AS THE INTERNATIONAL PRICE STABILIZATION SCHEME WILL BENEFIT BOTH PRODUCERS AND CONSUMERS, BOTH PARTIES

SHOULD ENJOY EQUALITY OF VOTES. A FORMULA ON THE  
DISTRIBUTION OF VOTES AMONG PRODUCERS AND CONSUMERS WILL  
HAVE TO BE DEvised.

XIII. FINANCE

29. CONTRIBUTIONS FROM ALL PARTICIPATING COUNTRIES SHOULD  
BE MANDATORY. THE EXACT FINANCIAL REQUIREMENTS CANNOT BE  
ASCERTAINED AT PRESENT BECAUSE THEY DEPEND ON THE OBJECTIVES  
AND MEASURES TO BE NEGOTIATED. HOWEVER, SINCE THE  
BENEFITS ARISING FROM AN INTERNATIONAL AGREEMENT ON  
NATURAL RUBBER AND IN PARTICULAR THE BENEFITS OF PRICE  
STABILIZATION OF NATURAL RUBBER WILL ACCRUE TO BOTH  
PRODUCERS AND CONSUMERS, THE COST OF FINANCING SHOULD BE  
SHARED EQUITABLY. THE SHARE OF CONTRIBUTIONS FROM PRODUCING  
OR CONSUMING COUNTRIES SHOULD BE ASSESSED ON PRODUCTION,  
CONSUMPTION, RELATIVE FINANCIAL STRENGTH AND OTHER RELEVANT  
FACTORS. END TEXT.  
DILLON

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** RUBBER, TEXT, DOCUMENTS, COMMITTEE MEETINGS, PRICE TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 16-May-1977 12:00:00 am  
**Decaption Date:** 22 May 2009  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977KUALA03030  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** AS 19770606  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770173-0100  
**Format:** TEL  
**From:** KUALA LUMPUR  
**Handling Restrictions:**  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770554/aaaabucv.tel  
**Line Count:** 621  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 01244693-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** STADIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 12  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** STADIS  
**Reference:** 77 KUALA LUMPUR 3029  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 22-Feb-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2507983  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SECOND UNCTAD PREPARATORY MEETING ON RUBBER, JUNE 6-10, 1977  
**TAGS:** EPAP, ETRD, EALR, ECIN, MY  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/01244693-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009